

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

SUPPLEMENTAL COMPLIANCE REPORT  
OF

SOUTH MONTGOMERY COMMUNITY  
SCHOOL CORPORATION  
MONTGOMERY COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
09/11/2015



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Karen Simpson Karla Joyce	07-01-12 to 09-30-13 10-01-13 to 01-12-14
Deputy Treasurer	Karla Joyce Kristin Charles	01-13-14 to 01-31-15 02-01-15 to 06-30-15
Director of Business and Operations	Eric W. Brewer	07-01-13 to 01-12-14
Director of Business and Operations/Treasurer	Eric W. Brewer	01-13-14 to 06-30-15
Superintendent of Schools	Dr. J. Bret Lewis Dr. Robert L. Foreman (Interim) Dr. Shawn E. Greiner	07-01-12 to 12-31-12 01-01-13 to 06-30-13 07-01-13 to 06-30-15
President of the School Board	Michael Hallas Brad Monts	07-01-12 to 12-31-12 01-01-13 to 12-31-15



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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE SOUTH MONTGOMERY COMMUNITY  
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

This report is supplemental to our audit report of the South Montgomery Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings incorporated within this report was not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

June 30, 2015

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

The School Corporation omitted the School Breakfast Program, the National School Lunch Program, Rural Education, and the Improving Teacher Quality State Grants from the SEFA presented for audit. These programs accounted for a total of \$945,002 in federal expenditures that were not originally reported. In addition, federal awards that were reported lacked the required detailed information. In some instances, the SEFA did not include the awarding agency, the pass-through agency, the proper federal program name, or the correct Catalog of Federal Domestic Assistance (CFDA) number.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

***FINDING 2014-002 - FINANCIAL TRANSACTIONS AND REPORTING***

We noted deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's financial statement and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of a reliable financial statement and, as a result, has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements.

The School Corporation has not established effective controls to allow for accurate reporting of the School Corporation's receipts, disbursements, and cash and investment balances. The School Corporation established a procedure to have a review of the monthly reconciliations; however, the reviews were not effective and did not prevent or detect errors in the financial transactions and cash and investment balances.

Depository reconciliations of the fund balances to the bank account balances were not presented for audit for the year July 1, 2013 to June 30, 2014. The School Corporation had multiple bank accounts but did not perform consolidated bank reconciliations by comparing the total cash and investments in all banks to the total reported in all funds in the ledger. They cleared bank transactions in the accounting system, but this was not a reconciliation. In addition, outstanding check lists were not presented for audit. Errors in receipts and disbursements transactions, and the cash and investment balances occurred and were not detected because proper reconciliations were not performed. As a result, receipts, disbursements, and cash and investment balances were overstated in the financial statement presented for audit.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

***FINDING 2014-003 - PROGRAM INCOME***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program and National School Lunch Program  
CFDA Numbers: 10.553 and 10.555  
Federal Award Numbers: FY 2012-2013 and FY 2013-2014  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements for Program Income that have a direct and material effect on the programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

The School Corporation has not designed or implemented adequate policies and procedures to ensure compliance with Program Income requirements. A monitoring or review process has not been established to ensure that receipts generated from cafeteria sales are collected and recorded properly. A proper receipt trail was not maintained and proper monthly reconciliements were not performed for the School Lunch fund. During the second year of the audit period, the School Corporation implemented new food service software. The School Corporation continued to track the point of sale receipts in the extra-curricular ledger and tried to mirror those receipts in the School Corporation fund ledger, even though the cash receipts were not deposited into their bank account. The School Corporation did not have procedures in place to reconcile the fund ledger totals to the cash totals after implementation of the new software.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by ensuring proper oversight, reviews, and approvals take place and having a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Program Income compliance requirements of the programs.

***FINDING 2014-004 - REPORTING***

Federal Agency: Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Years: S10A110014, S10A120014, and S10A130014  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements for Reporting that have a direct and material effect on the program. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

The School Corporation has not designed or implemented effective policies and procedures to ensure that required reports are accurately prepared and submitted. Reports are independently prepared and submitted by the School Corporation Treasurer without oversight, review, or approval.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

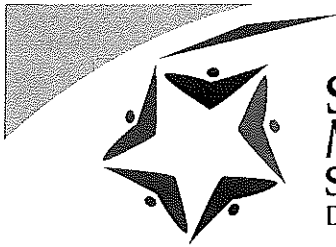
OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Reporting compliance requirements of the program.



**SOUTH  
MONTGOMERY  
SCHOOLS**  
Doing What's Best For Kids

**Dr. Shawn Greiner**

Superintendent

**Mr. Eric W. Brewer**

Director of Business & Operations

**Mr. Brett Higgins**

Director of Technology & Curriculum

PO Box 8, New Market, IN 47965

T: 765-866-0203 | F: 765-866-0736

www.southmont.k12.in.us

### **Corrective Action Plan**

**June 11, 2015**

Contact Person: Mr. Eric W. Brewer  
Title: Director of Business and Operations  
Phone Number: (765) 866-0203

#### **FINDING 2014-001**

South Montgomery Community School Corporation was made aware of deficiencies in their internal system relating to financial transactions and reporting on June 11, 2015. As of that date South Montgomery Community School Corporation is addressing the listed concerns as follows:

- 1) **Lack of Internal Controls** – South Montgomery Community School Corporation is aware of the potential risks associated with the lack of internal controls. South Montgomery Community School Corporation will continue to assess the risks and weigh that against any future improvement in the financial condition of the school corporation. Review of input information into Gateway will be reviewed and verified by multiple staff in regards to reporting grant information. South Montgomery Community School Corporation anticipates correction to occur by October 1, 2015.

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#### **FINDING 2014-002**

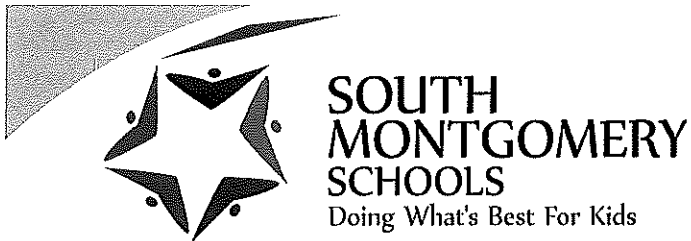
South Montgomery Community School Corporation was made aware of deficiencies in their internal system relating to internal controls over Financial Transactions and Reporting on June 11, 2015. As of that date South Montgomery Community School Corporation is addressing the listed concerns as follows:

- 1) **Internal Control/Compliance** – South Montgomery Community School Corporation is aware of the potential risks associated with not reconciling bank accounts to the ledger funds to ensure the balance of funds. South Montgomery Community School Corporation will continue to assess the risks and weigh that against any future improvement in the financial condition of the school corporation. South Montgomery Community School Corporation will consolidate and reconcile statements to the ledger for internal control and compliance. The anticipated completion date will occur on December 31, 2015.

#### **FINDING 2014-003**

South Montgomery Community School Corporation was made aware of deficiencies in their internal system relating to internal controls over compliance requirements that have a direct and material effect to Child Nutrition Cluster on June 11, 2015. As of that date South Montgomery Community School Corporation is addressing the listed concerns as follows:

- 1) **Lack of Segregation of Duties** – South Montgomery Community School Corporation is aware of the potential risks associated with limited staff and has determined at this time that it is not economically feasible to hire additional staff in order to have account functions performed by different employees. South Montgomery Community School Corporation will continue to assess the risks and weigh that against any future improvement in the financial condition of the school corporation. South Montgomery Community School Corporation will



**Dr. Shawn Greiner**  
Superintendent  
**Mr. Eric W. Brewer**  
Director of Business & Operations  
**Mr. Brett Higgins**  
Director of Technology & Curriculum


PO Box 8, New Market, IN 47965  
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www.southmont.k12.in.us

review and implement a system of internal control that will manage receipts and reconciliations to the ledger with the Komputrol Software program and segregation of duties. Anticipated date of occurrence will be October 1, 2015.

**FINDING 2014-004**

South Montgomery Community School Corporation was made aware of deficiencies in their internal system relating to internal controls over compliance requirement that have a direct and material effect to Title I, Part A Cluster.

- 1) **Lack of Segregation of Duties** – South Montgomery Community School Corporation is aware of the potential risks associated with not reviewing reports required for federal grant funds. South Montgomery Community School Corporation will continue to assess the risks and weight that against any future improvement in the financial condition of the school corporation. South Montgomery Community School Corporation will review and implement a system of pre and post verification for reimbursement and receipts with includes segregation of duties. Anticipated date of occurrence will be July 1, 2015.

  
Eric W. Brewer

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

***AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS***

The designated building level personnel did not provide written certification that the detailed student records maintained to support the Average Daily Membership claimed were accurate for the 2013-2014 school year.

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

***COLLECTIVE BARGAINING AGREEMENT***

The School Corporation did not post the collective bargaining agreement on the School Corporation's website within the allotted time. The School Board approved the collective bargaining agreement with the South Montgomery Community Education Association, on October 17, 2014, but did not post it for 39 days until November 26, 2014.

Indiana Code 20-29-6-19 states: "Not later than fourteen (14) business days after the parties have reached an agreement under this chapter, the school employer shall post the contract upon which the parties have agreed on the school employer's Internet web site."

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on June 30, 2015, with Dr. Shawn E. Greiner, Superintendent of Schools; Eric W. Brewer, Director of Business and Operations/Treasurer; Brad Monts, President of the School Board; Kristin Charles, Deputy Treasurer; and Rhonda Wright, Administrative Assistant.